

# South Carolina Board of Economic Advisors

## Statement of Estimated State Revenue Impact

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**Date:** January 22, 2007

**Bill Number:** S. 91 (Amended)

**Author:** Campsen, Ritchie and Knotts

**Committee Requesting Impact:** Senate Finance

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### Bill Summary

A bill to enact the Research and Development Tax Credit Reform Act by amending Section [12-6-3415](#), as amended, Code of Laws of South Carolina, 1976, relating to the corporate income tax and corporate license tax credit allowed taxpayers claiming a federal income tax credit for research activity, so as to allow the credit against any income tax imposed pursuant to the South Carolina Income Tax Act.

### REVENUE IMPACT <sup>1/</sup>

This bill is expected to reduce General Fund individual income tax revenue by \$250,000 in FY 2007-08.

### Explanation

This bill provides an individual income tax credit equal to 5% of the taxpayer's qualified research expenditures made in South Carolina. Corporate income taxpayers already may claim this credit against their corporate income tax liability or their license fee liability. This bill would expand the use of the credit to individual income taxpayers. This proposed South Carolina tax credit is based on the federal income tax credit contained in Section 41 of the Internal Revenue Code and is equal to 20% of a taxpayer's increased qualified research expenditures over their average base research expenditures during the past four years. Qualified research expenses are limited to research undertaken to discover information that is technological in nature, and its application must be intended for use in developing a new or improved business component of the taxpayer. The research must relate to new or improved function, performance, reliability, or quality. Market research and normal product testing costs are not research expenditures. This federal credit is available for amounts expended through December 31, 2007 and sunsets after that date unless extended by Congress. Since the proposed state credit and the federal credit are identical except for the tax credit percentage, federal tax credit estimates can be used to calculate the impact on South Carolina income tax revenue from the proposed tax credit. The Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2005-2009* estimates that the qualified research expenditures tax credit will reduce federal individual income tax revenue by an average of \$100 million. Applying South Carolina's 1% ratio of total population and personal income to these U.S. totals suggests that \$1 million of the federal tax credit is from South Carolina taxpayers. Since the proposed South Carolina tax credit is 5% of qualified research expenses, rather than the 20% federal tax credit, we expect that this bill would reduce General Fund individual income tax revenue by \$250,000 in FY 2007-08.

/s/WILLIAM GILLESPIE

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**Analyst:** Shuford

<sup>1/</sup> This statement meets the requirement of Section 2-7-71 for a state revenue impact by the BEA, or Section 2-7-76 for a local revenue impact, or Section 6-1-85(B) for an estimate of the shift in local property tax incidence by the Office of Economic Research.